

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Hamburg Township Library	County Livingston
Audit Date 6/30/05	Opinion Date 8/9/05	Date Accountant Report Submitted to State: 9/21/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

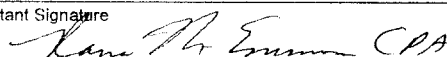
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Post, Smythe, Lutz and Ziel LLP			
Street Address 1034 W. Ann Arbor Trail		City Plymouth	State MI
		ZIP 48170	
Accountant Signature  CPA			Date 9/21/05

HAMBURG TOWNSHIP LIBRARY
Livingston County, Michigan

AUDITED FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005

HAMBURG TOWNSHIP LIBRARY
For the Year Ended June 30, 2005

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FINANCIAL SECTION

POST, SMYTHE, LUTZ AND ZIEL LLP

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Independent Auditor's Report

August 9, 2005

Board of Trustees
Hamburg Township Library
Hamburg, Michigan

We have audited the accompanying financial statements of the governmental activities, unit, and the general fund of the Hamburg Township Library, Michigan, a component unit of Hamburg Township, as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hamburg Township Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Hamburg Township Library as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
Hamburg Township Library
August 9, 2005

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully,

A handwritten signature in black ink, reading "Post, Smythe, Lutz & Ziel". The signature is written in a cursive, flowing style.

POST, SMYTHE, LUTZ and ZIEL LLP
Certified Public Accountants

Hamburg Township Library

10411 Merrill Rd. Box 247
Hamburg, MI 48139
810-231-1771

Management's Discussion and Analysis

As management of the Hamburg Township Library, we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Hamburg Township Library for the fiscal year ended June 30, 2005.

Financial Highlights

- The assets of the Hamburg Township Library exceeded its liabilities at the close of the most recent fiscal year by \$1,475,482 (*net assets*). Of this amount, \$1,422,318 (*unrestricted net assets*) may be used to meet the Library's ongoing obligations to citizens and creditors.
- The Library's total net assets decreased by \$2,845 from the prior year.
- As of the close of the current fiscal year, the Hamburg Township Library's governmental fund reported ending fund balance of \$1,438,502, a decrease of \$30,765 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Hamburg Township Library's basic financial statements. The Hamburg Township Library's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Hamburg Township Library's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Hamburg Township Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Hamburg Township Library is improving or deteriorating.

The statement of activities presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Hamburg Township Library, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Library's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Hamburg Township Library adopts an annual appropriated budget for its general operating fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. This statement can be found on page 13 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-21 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Hamburg Township Library, assets exceeded liabilities by \$1,475,482 at the close of the most recent fiscal year. The Library's net assets decreased by \$2,845 during the current fiscal year, with \$2,841 of this decrease resulting from an increase in accumulated sick and vacation pay liability.

Hamburg Township Library's Net Assets

	<u>2005</u>	<u>2004</u>
Current and other assets	\$1,456,946	\$1,490,737
Capital Assets	<u>53,164</u>	<u>22,403</u>
Total Assets	<u>1,510,110</u>	<u>1,513,140</u>
Long-term Liabilities	16,184	13,343
Other Liabilities	<u>18,444</u>	<u>21,470</u>
Total Liabilities	<u>34,628</u>	<u>34,813</u>
Net Assets:		
Invested in capital assets,		
Net of related debt	53,164	22,403
Unrestricted	<u>1,422,318</u>	<u>1,455,924</u>
Total Net Assets	<u>\$1,475,482</u>	<u>\$1,478,327</u>

Governmental activities. The Hamburg Township Library's net assets decreased by \$2,845 in fiscal year 2005. Key elements of this increase are as follows:

Hamburg Township Library's Changes in Net Assets

	<u>2005</u>	<u>2004</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 17,070	\$ 14,513
Operating Grants and Contributions	86,020	97,789
General Revenues:		
Property Taxes	387,178	365,228
State Shared Revenue	17,969	17,969
Other	<u>27,415</u>	<u>27,344</u>
Total Revenues	535,652	522,843
Expenses	<u>538,497</u>	<u>502,576</u>
Increase (Decrease) in Net Assets	(2,845)	20,267
Net Assets, July 1	<u>1,478,327</u>	<u>1,458,060</u>
Net Assets, June 30	<u>\$1,475,482</u>	<u>\$1,478,327</u>

Financial Analysis of the Government's Funds

As noted earlier, the Hamburg Township Library used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Hamburg Township Library's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Hamburg Township Library's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Hamburg Township Library's general operating fund, reported ending fund balance of \$1,438,502, a decrease of \$30,765 in comparison with the prior year. The entire amount of \$1,438,502 constitutes *unreserved fund balance*.

Key factors in the net increase in fund balance are as follows:

- An increase in the property tax revenues of \$21,950 resulting not from a tax increase, but rather from an increase in the taxable valuations of the property within the community.
- A decrease in other general revenues of \$11,769 represents a decrease in penal fines received from Livingston County Courts.

General Fund Budgetary Highlights

The Library Board did not amend their original adopted budget during fiscal year 2005. The original budget projected a net decrease in fund balance of \$107,702. The actual change in fund balance was a decrease of \$30,765, resulting in a favorable overall variance of budget to actual of \$76,937, as detailed on page 13 of this report.

Capital Assets

The Hamburg Township Library's investment in capital assets as of June 30, 2005, amounts to \$53,164 (net of accumulated depreciation). This investment in capital assets includes building improvements. The total increase in the Hamburg Township Library's investment in capital assets for the current fiscal year was \$30,761. Major capital asset events during the current fiscal year included purchase and installation of new computer equipment.

Hamburg Township Library's Capital Assets

	<u>2005</u>	<u>2004</u>
Building and Improvements	\$ 24,603	\$ 24,603
Computer Equipment	32,620	-
Less: Accumulated Depreciation	<u>(4,059)</u>	<u>(2,200)</u>
Capital Assets, Net	<u>\$ 53,164</u>	<u>\$ 22,403</u>

Additional information on the Hamburg Township Library's capital assets can be found in note IV.B on page 19 of this report.

Economic Factors and Next Year's Budget

- The property tax revenue is projected to increase by \$23,000 in fiscal year 2006 based on an increase in taxable values of property within the community, which is a 5.9% increase.
- Budgeted program expenses were increased in fiscal year 2006 to reflect the increase in the number of programs being offered and the increase in the attendance at these new programs.
- The Library has budgeted for additional expenditures in fiscal year 2006 for items related to operating a larger library facility, including additional book purchases and utilities.
- The Library's circulation increased 17% in fiscal year 2005 from the prior year and the Library projects a similar increase in circulation in fiscal year 2006 as a result of the population growth in the community as well as the newly constructed library facility.

All of these factors were considered in preparing the Hamburg Township Library's budget for the 2006 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$1,438,502. The Hamburg Township Library has appropriated \$109,338 of this amount for spending in the 2006 fiscal year budget.

Requests for Information

This financial report is designed to provide a general overview of the Hamburg Township Library's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Library Director, Hamburg Township Library, 10411 Merrill Road, Hamburg, Michigan 48139.

BASIC FINANCIAL STATEMENTS

HAMBURG TOWNSHIP LIBRARY
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash	\$ 1,442,363
Receivables (net of allowance for uncollectibles)	2,437
Due to State	8,974
Prepaid Expenditures	3,172
Capital Assets (net of accumulated depreciation)	<u>53,164</u>
Total Assets	<u>1,510,110</u>
<u>LIABILITIES</u>	
Accounts Payable	13,534
Accrued Liabilities	4,910
Noncurrent Liabilities:	
Due within one year	-
Due in more than one year	<u>16,184</u>
Total Liabilities	<u>34,628</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, net of related debt	53,164
Unrestricted	<u>1,422,318</u>
Total Net Assets	<u>\$ 1,475,482</u>

HAMBURG TOWNSHIP LIBRARY
Statement of Activities
For the Year Ended June 30, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Assets</u>
					<u>Governmental</u>
					<u>Activities</u>
Governmental Activities:					
Cultural	\$ 538,497	\$ 17,070	\$ 86,020	\$ -	\$ (435,407)
General Revenues:					
Property Taxes					387,178
State Shared Revenue					17,969
Unrestricted Investment Earnings					27,415
Total General Revenues					432,562
Change in Net Assets					(2,845)
Net Assets - Beginning					1,478,327
Net Assets - Ending					\$ 1,475,482

HAMBURG TOWNSHIP LIBRARY
Balance Sheet
Governmental Fund
June 30, 2005

	<u>General Fund</u>
<u>ASSETS</u>	
Cash	\$ 1,442,363
Receivables (net of allowance for uncollectibles)	2,437
Due from State	8,974
Prepaid Expenditures	<u>3,172</u>
Total Assets	\$ <u><u>1,456,946</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>	
Liabilities:	
Accounts Payable	\$ 13,534
Accrued Liabilities	<u>4,910</u>
Total Liabilities	<u>18,444</u>
 Fund Balance:	
Unreserved	1,438,502
 Amounts reported for governmental activities in the statement of net assets are different because:	
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	53,164
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(16,184)</u>
Net Assets of Governmental Activities	\$ <u><u>1,475,482</u></u>

HAMBURG TOWNSHIP LIBRARY
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2005

	<u>General Fund</u>
<u>Revenues</u>	
Property Taxes	\$ 387,178
Intergovernmental - State	17,969
Charges for Services	2,871
Fines and Forfeitures	98,691
Interest	27,415
Other	1,528
Total Revenues	<u>535,652</u>
<u>Expenditures</u>	
Current:	
Cultural	533,797
Capital Outlay	32,620
Total Expenditures	<u>566,417</u>
Net Change in Fund Balance	(30,765)
Fund Balance - Beginning	<u>1,469,267</u>
Fund Balance - Ending	<u>\$ 1,438,502</u>

HAMBURG TOWNSHIP LIBRARY
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because

Net change in fund balance - total governmental fund	\$ (30,765)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	30,761
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Governmental funds report a liability for compensated absences only if they have matured. The long-term portion of compensated absences related to the governmental fund is a liability recorded in the Statement of Net Assets. This amount represents the net effect of differences in the treatment of long-term debt, such as compensated absences.	<u>(2,841)</u>
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Change in net assets in governmental activities	\$ <u><u>(2,845)</u></u>
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HAMBURG TOWNSHIP LIBRARY
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property Taxes	\$ 388,412	\$ 388,412	\$ 387,178	\$ (1,234)
Intergovernmental - State	16,000	16,000	17,969	1,969
Penal Fines	98,000	98,000	86,020	(11,980)
Book Fines	6,700	6,700	12,671	5,971
Copies	750	750	2,280	1,530
Programs	150	150	591	441
Interest Income	9,445	9,445	27,415	17,970
Donations	100	100	1,021	921
Miscellaneous	125	125	507	382
Total Revenues	<u>519,682</u>	<u>519,682</u>	<u>535,652</u>	<u>15,970</u>
Expenditures:				
Salaries & Wages	320,112	320,112	296,370	23,742
Fringe Benefits	59,835	59,835	56,709	3,126
Office Supplies	21,482	21,482	11,763	9,719
Postage	6,644	6,644	5,429	1,215
Custodian/Cleaning	16,276	16,276	10,254	6,022
Secretary	318	318	291	27
Telephone	3,900	3,900	3,207	693
Utilities	31,572	31,572	26,674	4,898
Mileage	750	750	854	(104)
Travel	1,770	1,770	1,563	207
Workshops	1,690	1,690	1,351	339
Programs	22,140	22,140	9,982	12,158
Books	37,080	37,080	31,293	5,787
Magazines	1,935	1,935	588	1,347
Newspapers	1,500	1,500	286	1,214
Electronic Subscriptions	4,723	4,723	180	4,543
Audio	3,360	3,360	4,252	(892)
Music	900	900	621	279
Videos	3,000	3,000	2,120	880
Internet Service Fee	1,380	1,380	-	1,380
Dues & Memberships	560	560	495	65
Professional Fees	22,430	22,430	20,464	1,966
Printing & Publishing	12,875	12,875	8,131	4,744
Bank Fees	1,200	1,200	806	394
Miscellaneous	8,805	8,805	730	8,075
Equipment Maintenance	8,212	8,212	8,566	(354)
Repairs & Maintenance	14,490	14,490	15,107	(617)
Landscape Maintenance	5,645	5,645	6,168	(523)
Office Equipment	2,100	2,100	5,768	(3,668)
Office Furniture	2,700	2,700	3,775	(1,075)
Computer Equipment	8,000	8,000	32,620	(24,620)
Total Expenditures	<u>627,384</u>	<u>627,384</u>	<u>566,417</u>	<u>60,967</u>
Net Change in Fund Balance	(107,702)	(107,702)	(30,765)	76,937
Fund Balance - Beginning	<u>1,469,267</u>	<u>1,469,267</u>	<u>1,469,267</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,361,565</u>	<u>\$ 1,361,565</u>	<u>\$ 1,438,502</u>	<u>\$ 76,937</u>

HAMBURG TOWNSHIP LIBRARY
Notes to Financial Statements
June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Library provides public library services to the residents of Hamburg Township, Michigan. As required by generally accepted accounting principles, these financial statements present the Hamburg Township Library, which is a component unit of Hamburg Township.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. *Governmental activities* are activities which are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

HAMBURG TOWNSHIP LIBRARY
Notes to Financial Statements
June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
– Continued

Property taxes, fines, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Governmental Funds

The Library reports only one fund, which is the General Fund. The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the Library to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments are recorded at fair value.

2. Capital Assets

Capital assets, which include property, plant, and equipment are reported in the governmental column in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs

HAMBURG TOWNSHIP LIBRARY
Notes to Financial Statements
June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Assets, Liabilities and Net Assets or Equity – Continued

2. Capital Assets – Continued

that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building Improvements	10-15
Computer Equipment	4

3. Compensated Absences

In accordance with personnel policies adopted by the Library Board, employees earn sick and vacation time based on time of service with the Library. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured. The long-term portion of compensated absences related to the governmental fund is a liability recorded in the Statement of Net Assets. The total liability at June 30, 2005 is \$16,184.

4. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet And the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and therefore are not reported in the funds." The details of this difference is as follows:

Compensated Absences Payable	<u>\$16,184</u>
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HAMBURG TOWNSHIP LIBRARY
Notes to Financial Statements
June 30, 2005

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS -
Continued

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Depreciation Expense	\$ (1,859)
Capital Outlay	<u>32,620</u>
	<u>\$30,761</u>

Another element of that reconciliation states that Governmental funds report a liability for compensated absences only if they have matured. The long-term portion of compensated absences related to the governmental fund is a liability recorded in the Statement of Net Assets. The change in compensated absences is as follows:

Compensated Absences	<u>\$ 2,841</u>
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III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Library is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

1. Prior to June 1, the Library Director submits a proposed operating budget for the ensuing fiscal year commencing July 1. The board adopts the budget at the total fund level.
2. Public hearings are held prior to adoption.
3. Prior to June 30, the budget is enacted by passage of a resolution.
4. Formal budget integration is employed as a management control device for the General Fund.
5. The budget for the General Fund is adopted on a basis consistent with Generally Accepted Accounting Principles (GAAP).
6. Appropriations lapse at year end.
7. The Library Board may amend the budget during the year.

HAMBURG TOWNSHIP LIBRARY
Notes to Financial Statements
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III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balances

The Library has no funds with accumulated fund balance deficits.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated in the annual budget. In the body of the financial statements, the Library's actual expenditures and budgeted expenditures have been shown on a line item basis. The approved budget of the Library for the General Fund, which is the budgetary fund was adopted on the total fund level.

During the year ended June 30, 2005, the Library did not incur expenditures in excess of the amount appropriated.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The following information, as required by the Governmental Accounting Standards Board Statement number 40 is presented, regarding the Library's deposits and investments:

Custodial Credit Risk is the risk that in the event of a bank failure, the Library's deposits may not be recovered. Neither State law nor the Library's investment policy requires consideration of custodial credit risk. As of June 30, 2005, the Library's book balance of its deposits and investments was \$1,442,038; the total book balance was \$1,442,363, due to \$325 in petty cash. The bank balance was \$1,443,051, all of which was exposed to custodial credit risk, as the entire balance is uninsured and uncollateralized.

Credit Risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices.

Interest Rate Risk. The Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Library's deposits and investments consisted of the following:

Cash-Demand Deposit Accounts	\$ 215,637
Cash-Certificates of Deposits-Less than one year	\$ 857,728
Cash Money Market Accounts (Share price=\$1)	\$ 369,686

HAMBURG TOWNSHIP LIBRARY
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IV. DETAILED NOTES ON ALL FUNDS - Continued

A. Deposits and Investments - Continued

Concentration of Credit Risk. The Library's investment policy places no limit on the amount the Library may invest in any one issuer. All of the Library's investments are with a single issuer, the First National Bank of Howell.

B. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital Assets, being depreciated:				
Buildings and Improvements	\$24,603	\$ -	\$ -	\$24,603
Computer Equipment	-	32,620	-	32,620
Less: Accumulated Depreciation	<u>(2,200)</u>	<u>(1,859)</u>	<u>-</u>	<u>(4,059)</u>
Governmental Activities Capital Assets, Net	<u>\$ 22,403</u>	<u>\$30,761</u>	<u>\$ -</u>	<u>\$53,164</u>

Depreciation expense was charged to functions/programs of the Library as follows:

Governmental Activities: Cultural \$ 1,859

C. Long-Term Debt

The following is a summary of long-term debt transactions of the Library for the year ended June 30, 2005:

	<u>Balance July 1, 2004</u>	<u>Additional Debt Incurred</u>	<u>Retirements and Payments on Debt</u>	<u>Balance June 30, 2005</u>	<u>Due Within One Year</u>
Governmental Activities:					
Compensated Absences	<u>\$13,343</u>	<u>\$ 2,841</u>	<u>\$ -</u>	<u>\$16,184</u>	<u>\$ -</u>

HAMBURG TOWNSHIP LIBRARY
Notes to Financial Statements
June 30, 2005

IV. DETAILED NOTES ON ALL FUNDS - Continued

D. Fund Balance Designations

A detailed description of fund balance designations at June 30, 2005, is presented below:

<u>Fund Balance</u>	<u>General Fund</u>
Unreserved:	
Designated for:	
Subsequent Year's Expenditures	\$ 109,338
Building Capital Facilities	
Development	442,993
Programs and Services	
Development	414,735
Undesignated	<u>471,436</u>
Total Fund Balance	<u>\$1,438,502</u>

E. Property Taxes

Property taxes are assessed as of each December 31. Taxes are billed the following December 1 and due the subsequent March 1, at which time the applicable property is subject to lien and penalty and interest is assessed. The Library's tax levy for the 2004 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

<u>Source</u>	<u>Purpose</u>	<u>Date of</u>	<u>Maximum</u>	Less:	<u>Maximum</u>	<u>Tax</u>
<u>Voted</u>	<u>Operating</u>	<u>Authorization</u>	<u>Authorized</u>	<u>Required</u>	<u>Allowable</u>	<u>Levy</u>
		8/98	.5 mil	<u>(State Law)</u>	<u>Millage</u>	
				(.0464)	.4536	.4536

V. OTHER INFORMATION

A. Defined Contribution Plan

The Library provides all of its full-time employees with a defined contribution retirement plan provided through Hamburg Township and administered by Manulife Financial. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by Board resolution, the Library contributes 10 percent of employees' gross earnings annually to the plan. The plan may be amended by Board resolution. The Library's current year contribution was \$13,787 for the three full-time employees covered under the plan.

HAMBURG TOWNSHIP LIBRARY
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V. OTHER INFORMATION - Continued

B. Risk Management

The Library, through Hamburg Township, is a member of the Michigan Municipal Risk Management Authority for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage, and pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with Hamburg Township Library and the pools to which it belongs in any of the past three fiscal years.

C. Sewer Billing

In August 2004, the Library analyzed the actual amount of sewer usage that the new library facility uses and compared it to the estimated amount that Hamburg Township has been billing the Library for the period of June 2001 through June 2004. Based on their analysis, the Library calculates that the Township has billed them \$9,775 more than the actual units during that period of time. The Library Board and the Township Board are currently in discussions regarding this matter, and the outcome has not been determined to date.